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SENSITIVE

STATE PASS USTR FOR KDKALUTKIEWICZ
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SUBJECT: BRAZILIAN PRIVATE SECTOR VIEWS ON FREE TRADE AND
U.S.-BRAZIL COOPERATION

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11. (SBU) Summary: Private sector leaders from the powerful Sao Paulo Federation of Industries (FIESP) emphasized their growing interest in negotiating a Bilateral Investment Treaty (BIT), a Bilateral Tax Treaty (BTT), as well as liberalizing trade with Mexico and the United States, during meetings with USTR General Counsel Timothy Reif on June 18. FIESP's leaders candidly discussed their relationship with their Mercosul neighbors and clarified their support for Venezuelan accession. They expressed concern about Brazil's increasing trade relationship with China, fearful that Brazil is becoming merely a supplier of raw materials for that country. The Sugar Cane Growers Association (UNICA) also expressed hope that the United States and Brazil could increase cooperation on climate change. End Summary.

12. (SBU) FIESP Director of International negotiations Mario Marconini hosted a roundtable for USTR General Counsel Timothy Reif on June 18. Other attendees included Fernando Pimentel (President of the Brazilian Textile and Apparel Industry Association), Gabriel Rico (President of the American Chamber of Commerce in Sao Paulo), and Carolina Costa (UNICA).

BIT, BTT, and Doha

13. (SBU) Marconini said that FIESP is interested in a Bilateral Investment Treaty (BIT) and a Bilateral Tax Treaty (BTT). He added that many of FIESP's members who do business in the United States have complained about double taxation. Although the tax treaty has been under negotiation for 40 years without conclusion, Marconini believes that there is hope for both agreements. While Mexico is FIESP's top target for trade liberalization, Marconini said the U.S. remains FIESP's second priority. The GoB has already signed a customs agreement for auto parts and negotiated a 20 percent reduction in textile duties with Mexico. FIESP hopes the GoB will sign a comprehensive trade agreement with Mexico soon.

14. (SBU) Marconini noted that Brazil is increasingly ready to accept

labor and environmental provisions as part of trade agreements. China, in his view, attempted to hide behind Brazil in the last Doha round and was surprised by Brazil's willingness to negotiate. Marconini called Doha the "crown jewel of trade deals" and responded positively to expressions of U.S. interest in furthering negotiations. He said, however, that the industrial sector is cynical about the U.S. commitment to free trade, given the financial crisis and statements made during the U.S. presidential election. Implementing the FTA with South Korea would enhance U.S. credibility, in Marconini's view. Further progress on the Doha Round will be challenging politically, according to Marconini. Brazilian industry already has made concessions, and could only be pressed to do more if further agricultural offers are forthcoming.

¶6. (SBU) FIESP believes that the high cost of doing business in Brazil creates an uneven playing field for Brazilian firms. Marconini cited the high cost of hiring an employee as an example. According to FIESP, employers pay twice an employee's salary in taxes. He expressed disappointment that President Lula, despite his immense popularity, had been unable to pass significant regulatory reform, especially for banks. Everyone at the roundtable meeting complained bitterly about the enormously profitable banking sector and their tight credit restrictions.

Trouble in Mercosul

¶7. (SBU) FIESP leaders also criticized Argentina's trade policies.

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They alleged that the country has erected a number of obstacles to trade, including non-tariff barriers (NTBs). At the same time, they advocated caution in moving against the country. When Argentine President Cristina Kirchner visited FIESP earlier this year, she said that Argentina, unlike Brazil, had not developed its industries; it had destroyed them. She asserted that that her country needed more time to develop industry, implying the need for import-substitution tariffs. Marconini stated that Brazil should remain cautious in its approach with Argentina, but admitted that FIESP, despite being unhappy with the country's NTBs, was generally understanding of Argentina's position.

¶8. (SBU) FIESP does not oppose Venezuelan accession to Mercosul, but does insist that Venezuela join the trade bloc on Brazilian terms. Venezuela exports very little to Brazil, according to Marconini, so the economic impact of having a customs agreement with the country would be minimal. On the other hand, FIESP reps maintain that Venezuelan accession could either encourage reform in Venezuela or institutionally destroy Mercosul. (Comment: In light of Argentine NTBs and other obstacles within Mercosul affecting Brazilian products, it is unlikely FIESP's leaders would mourn Mercosul, should it end. End Comment.)

¶9. (SBU) Marconini said that Brazil could, "nail Venezuela in the WTO if it wanted," but FIESP and the GoB do not want to offend Hugo Chavez. FIESP cited numerous Venezuelan NTBs, highlighting restrictions on currency exchange as the most serious. Marconini said that Chavez wants to launch a "vendetta against another big country," and that Brazil is treading softly in the region to avoid becoming his next target.

China

¶10. (SBU) The GoB was disappointed with Lula's visit to China, according to FIESP reps. Lula failed to win any concessions on pork exports or stem the flood of Chinese-origin textiles to Brazil. The long-planned US\$10 billion deal with oil giant Petrobras was the only significant announcement. Pimentel said China's recent rise to Brazil's top trading partner is cyclical, especially since 73 percent of their trade is in commodities, while Marconini insisted the Chinese view Brazil merely as a source of raw materials, to be manufactured and sold back to the Brazilians. FIESP reps cited a

Chinese partnership with Brazilian mid-size aircraft builder Embraer as an indication that China intends to develop its own finished products in as many sectors as possible.

¶11. (SBU) Pimentel also observed that due to an ill-conceived agreement between the GOB and the Government of Bolivia, Chinese-origin textiles have inundated Brazil. Because of the U.S. removal of certain Bolivian textile incentives, Brazil granted Bolivia the right to export to Brazil textiles of any origin duty free, up to the level of lost trade with the United States (in this case, US\$21 million). As a result, Bolivia now imports large amounts of Chinese textiles from China and then exports them into Brazil for a substantial profit, duty free and with little to no value added.

Climate Change

¶12. (SBU) UNICA rep Carolina Costa proposed climate change as an area for increased Brazil-U.S. cooperation. She cited a scientific study, which showed that sugarcane-based ethanol emitted 90 percent less greenhouse gas (GHG) than oil. She said that lack of infrastructure in Caribbean Basin Initiative countries prevented UNICA from reaching the quota of tariff-free exports into the United States via these countries. Costa promised to look into ways to

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increase development in these countries, but said that it sometimes more profitable to sell ethanol directly to the United States, even with the tariff. She hoped the United States will join UNICA in promoting a worldwide gasoline standard of at least E-10 (10 percent ethanol, 90 percent gasoline).

¶13. (SBU) Marconini feared that the Copenhagen environmental conference in December would unjustly penalize FIESP's member companies for the destruction of the Amazon. FIESP would oppose any treaty that led to Brazilian industry paying for GHG emissions for which they did not bear responsibility.

Comment

¶14. (SBU) FIESP's outlook on Mercosul shows that the organization is not prepared to publically criticize the growth of protectionism in Argentina and Venezuela. FIESP's views on China focus on export competition concerns and inequality in the relationship. Other ConGen interlocutors have echoed the fear that Brazil has become simply a market for Chinese goods manufactured with Brazilian raw materials. In searching for common ground among trading partners, FIESP leaders seemed more comfortable with their counterparts in the United States and Mexico than those in China and Argentina, although the negotiation of any trade agreement would have to be amidst the complexities of Brazil's Mercosul commitments. End Comment.

¶15. (U) This cable was coordinated with and cleared by Embassy Brasilia.

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